ANNUAL REPORT

MARCH 19

1967

THE HAMILTON COTTON COMPANY, LIMITED

The Hamilton Cotton Company, Limited

AND SUBSIDIARY COMPANIES

Head Office: 304 MARY STREET, HAMILTON, ONTARIO

Plants at:

Hamilton, Ontario - Trenton, Ontario - Dundas, Ontario - Ajax, Ontario
Marysville, New Brunswick

Sales Offices at:

Halifax - Montreal - Toronto - Hamilton - Winnipeg - Vancouver

Directors

Alan V. Young
William H. Young
Dunlop Stewart
S. B. Stewart
E. G. Howe
James M. Young
David M. Young
R. N. Steiner
L. S. Magor

Officers

Alan V. Young
Chairman of the Board

William H. Young
President and General Manager

S. B. Stewart
Vice-President

D. M. Young
Vice-President

G. B. Lawrence
Executive Vice-President — Textiles

J. M. Young
Vice-President

G. H. Pullam
Vice-President and General Sales Manager

E. G. Howe
Vice-President — Finance and Secretary-Treasurer

AUDITORS

Peat, Marwick, Mitchell & Co.

REGISTRAR, TRANSFER AGENT AND TRUSTEE FOR BONDHOLDERS

Canada Permanent Trust Company
Toronto, Ontario

BANKERS

Canadian Imperial Bank of Commerce

Annual Report of Directors

To the Shareholders:

Your directors submit herewith the thirty-ninth annual report of your Company including the consolidated balance sheet as of 19th March, 1967, and the statements of profit and loss and surplus for the year ended on that date.

FINANCIAL

Consolidated net profit for the fiscal year ended 19 March, 1967, was $745,986 after depreciation of $591,059.

Working capital improved by $599,064 and totalled $2,445,385 at the year end.

Certain major items of a non-recurring nature were included in the consolidated profit and loss for the year. In total, the losses more than offset the gains. The increase in inventory values and the profit on the sale of shares in Machinen Miete Gmbh, which are reported separately, were included in income, while extra depreciation of $100,000 to bring the book value of a building to estimated market value and the losses and costs of closing out the Western manufacturing operations of P. B. Yates Machine Company, were included in expenses. In addition to income reported, there was also a substantial increase in the total underlying value of your Company's investments.

A revised method of calculating inventory values was adopted during the year which reflected present costs of manufacture and raw materials only, with no provision for costs of administration or selling. Previously, inventory values were based on standard cost figures developed a number of years ago which were below present actual cost. This method was no longer acceptable to the Department of National Revenue for the purpose of calculating taxable profits. This change in method resulted in an increase of $139,605. in the value of finished goods inventory.

Because of the shortage of working capital, together with notes and other obligations coming due in the near future, the Board of Directors believed it prudent to secure additional equity for the Company. In May 1967, after the close of the 1967 fiscal year reported hereunder, $1,000,000 of $100.00 par value Hamilton Cotton 6% cumulative redeemable convertible preferred shares were sold privately as the practical means of placing such a limited issue. These shares are convertible into four common shares of the Company during the next ten years and are redeemable at a diminishing premium at any time in any amount. Approximately $975,000 was netted from this sale, $400,000 of which was used to reduce outstanding notes not due within one year at March 19th, 1967 and $575,000 was added to working capital.

TEXTILES

Your Company's textile plants operated at practical capacity throughout the year. A prolonged strike shutting down a number of plants of a major competitor, together with an already buoyant cotton textile market, created a supply situation which saw both imports into the Canadian market and your Company's textile sales at new annual highs.

Capital expenditures approximated $380,000 during the year. These purchases completed the capital program of the past five years in which over $5\frac{1}{2}$ million of capital assets were acquired by purchase or by leasing. No new program is presently planned.

As a result of the Kennedy Round of tariff negotiations, tariffs which apply to the textile products of your Company will be reduced in a range from zero to $12\frac{1}{2}\%$ of present rates. It is expected that these reductions will be applied in even amounts over a four-year period which should enable your Company to adjust to lower protection without undue hardship. Potentially of more serious consequence is the change negotiated at Geneva in the regulations governing dumping, the practice of exporting a product at a price below the prevailing price in the home market. Present Canadian law makes such an import automatically subject to extra customs duty. Under new regulations adopted by Canada, a Canadian company, or industry, must prove that it has been injured by dumping before countermeasures may be applied. How the Canadian Government determines injury and how quickly administrative procedures are implemented could have a marked effect on the prosperity of your Company's textile operation in future. The cotton textile industry in the United States is approximately twenty times the size of Canada's and any over-production in the U.S.A. that is dumped into our market will be harmful to the Canadian industry if corrective action is not taken quickly by the Canadian government.

Union contracts governing textile employment until the summer of 1968 were signed during the year.

THE P. B. YATES MACHINE COMPANY LIMITED

Although the loss of the machinery division of this company was reduced substantially from the previous year, it was still sizeable. A large part of the loss was caused by non-recurring expenses connected with the close down and liquidation of manufacturing assets of west coast operations which formed part of the retrenchment program referred to last year. This program is continuing and it will result in a further reduction in Yates loss in the year ending March 1968, although not in its elimination.

NORTH AMERICA BUSINESS EQUIPMENT LIMITED — (NABEL)

NABEL showed an audited net profit of $128,909 for its fiscal year ended 30 June, 1966. Profits in 1966 suffered because the continued difficulty in borrowing money restricted new business to that which could be financed from the net cash flow of the company. These same conditions continue to affect profits adversely in 1967. However, this pause in growth has permitted NABEL to consolidate changes in organization and procedures which will allow it to resume its expansion more profitably than in the past as conditions in money markets become easier. In April 1967, after the close of the fiscal year, The Hamilton Cotton Company purchased part of the holdings of minority shareholders to bring its investment in NABEL to 88,835 shares (out of 190,000 shares outstanding) at a total cost of $314,597. In addition, The Hamilton Cotton Company owns 10,000 of NABEL'S 21,000 outstanding 6% cumulative redeemable convertible preferred shares of $50 par value and has advanced $550,000 to NABEL on a secured note. Dividends on the NABEL preferred shares have been shown in Hamilton Cotton Company's reported profit for the year.

HAMILTON LEASING LIMITED

Hamilton Leasing Limited continued to grow and prosper despite difficulties of tight money and an economic slowdown in the United Kingdom. For its fiscal year ended 30th May 1967, unaudited figures for Hamilton Leasing show a profit of approximately £135,000, or £85,000 available for the common shareholders after payment of the U.K. tax paid preferred dividend. The Hamilton Cotton Company owns 35% of the common shares of Hamilton Leasing Limited at an investment of $226,361 and NABEL owns a further 12½%. In addition, the Hamilton Cotton Company holds £200,000 of Hamilton Leasing's 6% preferred shares upon which dividends are being received and shown in the Hamilton Cotton Company's consolidated profit.

MASCHINEN MIETE GMBH

This leasing company operating in West Germany continued to grow profitably despite a marked slowdown in the German economy. In November 1966, Hamilton Cotton Company sold shares to a company controlled by a major German bank to reduce its holdings in Maschinen Miete to 29% of the outstanding common shares (after deducting certain shares under option to local management) at a price of 250% of the original cost. This resulted in a profit to Hamilton Cotton Company on the shares of $73,320 which amount is shown as part of the consolidated profit of the Hamilton Cotton Company Limited for the year. NABEL sold its 10% holding at the same time on the same terms. The German bank, which now controls Maschinen Miete, will provide the financial sponsorship to permit Maschinen Miete to accelerate its rate of profitable growth. Investment of Hamilton Cotton Company in Maschinen Miete now stands at $73,107.

OTHER INVESTMENTS

Societe de Gestion de Biens d'Equipment (SOGEBE) operates a leasing business in France. SOGEBE showed a profit equivalent to approximately $33,000 in its latest fiscal year. Because of certain changes in investments, your Company held no shares in SOGEBE at the 19th March 1967, but had a commitment to purchase 45% of the outstanding shares for $118,476. This commitment was fulfilled after the year end. While SOGEBE has the potential of becoming a large company, it will not be able to do so until prevailing borrowing restrictions are changed in France.

ALQUIBER S.A., a leasing company operating in Spain, doubled its common share capitalization during the year. The Hamilton Cotton Company did not participate in this and, consequently, its share of ALQUIBER was reduced from 30% to 15%. The Hamilton Cotton Company's share of ALQUIBER profit for its year ended December 1966, was approximately $22,000.

HAMILTON COTTON GMBH, a wholly-owned subsidiary operating a number of coin laundry and dry cleaning shops in West Germany, operated at a break-even for the nine-month period ended 31st March, 1967, after meeting rental payments on machinery and equipment owned by the Hamilton Cotton Company Limited.

TECHNAMATION (EUROPE) S.A. — This company continued to increase its sales during its present fiscal year which ends 30th September 1967, and showed a small profit in the first six months to the end of March.

The Hamilton Cotton Company's investment in these last three companies totals $166,510.

PROSPECTS

The upswing in the traditional textile business cycle which commenced in 1963 continued unabated until the last quarter of 1966. Since then there has been a marked drop in textile demand which has affected operations of your Company to date in the current fiscal year. Production has had to be curtailed in some divisions because of lack of orders. These conditions should improve in the last six months of the present fiscal year.

The new machinery business generally is slow in 1967 and this applies particularly to machinery for the forest products industry. Sales of P. B. Yates products are down over those of a year ago, although a good part of this is due to a planned cutback in the size of the Yates operation.

The consolidated profit of the Hamilton Cotton Company, which combines the results of the textile divisions and of P. B. Yates, will therefore, only be nominal in the first six months of the current fiscal year. However, there are indications of improvements in business conditions during the last six months.

The value of investments of the Hamilton Cotton Company should continue to grow profitably. However in most, the Company's share of earnings, apart from dividends actually received, is not included in the consolidated report of profit.

Your directors wish to express their continued and sincere appreciation for the co-operation of all members of the staff.

By order of the Board of Directors.

W. H. Young,
President.

The Hamilton Cotton Company, Limited

MARCH 19, 1967 (WITH COMPARA

Assets

	1967	1966
Current assets:		
Cash	$ 41,218	—
Notes and accounts receivable, trade . . .	2,293,827	2,224,564
Other accounts receivable (including $14,703 from a director) . . .	80,208	62,975
Other notes receivable	575,879	842,080
Amounts receivable from subsidiary not consolidated	—	30,000
Inventories, at lower of cost or net realizable value:		
Cotton divisions (note 2)	5,292,299	4,136,295
Machine divisions	1,047,158	1,461,873
Prepaid expenses	92,118	98,023
Deposits with mutual fire insurance company .	40,116	46,702
Total current assets	9,462,823	8,902,512
Conditional sales contracts, not due within one year	—	89,196
Mortgages and accounts receivable (including employees $14,926)	38,056	46,170
Special refundable tax	10,525	—
Investment in and advances to subsidiaries not consolidated:		
Investment in shares (note 3)	14,293	65,521
Advances	55,576	17,828
Other investments and advances:		
Investment in shares of associated company (note 3)	243,905	171,397
Other investment in shares (note 3) . . .	1,882,726	1,815,705
Advances	—	49,597
Fixed assets (note 4):		
Building, machinery and equipment . . .	12,615,723	12,454,590
Less accumulated depreciation	8,522,444	8,011,193
	4,093,279	4,443,397
Land	199,554	199,554
	4,292,833	4,642,951
Deferred development and other charges, at cost less amounts written off	114,932	105,196
Excess of cost of investment in consolidated subsidiaries over the equity therein at dates of acquisition	12,286	15,201
	$16,127,955	15,921,274

Approved on behalf of the Board:

ALAN V. YOUNG, *Director*
W. H. YOUNG, *Director*

See accompanying notes to

Subject to the accompanying report of Peat, Marwick, M

AUDITORS' REPORT

We have examined the consolidated balance sheet of The Hamilton Cott consolidated statements of profit and loss, earned surplus and source and applica review of the accounting procedures and such tests of accounting records and ot

In our opinion, the aforementioned consolidated financial statement pres March 19, 1967 and the consolidated results of their operations and the consoli accordance with generally accepted accounting principles which, except for the on a basis consistent with that of the preceding period.

Hamilton, Ontario
July 14, 1967

 Consolidated Balance Sheet
E FIGURES FOR MARCH 20, 1966)

Liabilities

	1967	1966
Current liabilities:		
Due to banks, secured by assignment of book debts and merchandise:		
Demand loans	$ 4,341,000	4,471,500
Current account	46,798	110,396
	4,387,798	4,581,896
Notes and accounts payable and accrued expenses ($123,249 secured by equipment and $1,350,404 secured by raw cotton)	2,543,291	2,330,989
Deposits on contracts	8,998	38,863
Income taxes payable	2,926	26,714
Other taxes payable	64,936	73,615
Dividends payable	4,114	4,114
Due to a subsidiary, not consolidated . . .	5,375	—
Total current liabilities	7,017,438	7,056,191
Notes not due within one year (note 8) . . .	508,654	547,211
Conditional sales contract secured by new machinery acquisitions	374,272	314,726
Funded debt (note 5)	2,050,000	2,200,000
Deferred credits:		
Income taxes (note 6)	137,500	92,000
From sale of fixed assets (note 7)	457,362	739,590
Finance charges	15,940	28,206
Shareholders' equity (note 8):		
5% cumulative redeemable sinking fund preferred shares of $100 par value each. Authorized and issued 3,691 shares less 400 shares redeemed .	329,100	329,100
Common shares of no par value. Authorized 200,000 shares; issued 80,000 shares . . .	1,200,000	1,200,000
Contributed surplus, unchanged during the year .	166,005	166,005
Reserve for contingencies	550,000	450,000
Earned surplus (note 9)	3,321,684	2,798,245
Total shareholders' equity . . .	5,566,789	4,943,350
Contingent liabilities and commitment (note 11) .		
	$16,127,955	15,921,274

lidated financial statement.
ll & Co., Chartered Accountants, dated July 14, 1967.

HE SHAREHOLDERS

Company, Limited and Subsidiary Companies as of March 19, 1967 and the
of funds for the year ended on that date. Our examination included a general
supporting evidence as we considered necessary in the circumstances.
fairly the consolidated financial position of the company and subsidiaries at
l sources and application of their funds for the year ended on that date, in
rs referred to in notes 2, 4 and 6 have been applied in all material respects

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Consolidated Statement of Profit and Loss

Year Ended March 19, 1967

(With Comparative Figures for the Period December 27, 1964 to March 20, 1966)

	13 periods ended March 19, 1967	*16 periods ended March 20, 1966*
Net sales	$19,046,341	22,538,883
Profit from operations before the undernoted items and after providing depreciation $591,059 (1966, $518,355) and remuneration of senior officers and directors $147,249 (1966, $158,577) of which $124,711 (1966, $133,481) applies to directors	$ 1,196,436	212,676
Increase in equity of:		
Associated company	72,508	—
Subsidiary companies not consolidated	3,250	2,898
Other investments	2,609	69,446
Dividends (1966 includes $114,000 from a subsidiary not consolidated)	43,239	168,217
Other investment income	58,234	150,685
Gain on sale of investment	73,320	—
	1,449,596	603,922
Deduct:		
Loss on sales of fixed assets	96,659	11,956
Non-recurring costs on termination of subsidiary manufacturing operations	138,065	—
Loss on sale of investment in a former subsidiary	1,685	—
Interest on funded debt	126,148	167,581
Other interest	332,620	401,710
	695,177	581,247
Profit before income taxes	754,419	22,675
Income taxes (note 6):		
Deferred recovered	—	(51,000)
Current	8,433	15,500
	8,433	(35,500)
Net income	$ 745,986	58,175

See accompanying notes to consolidated financial statement.

Subject to the accompanying report of Peat, Marwick, Mitchell & Co., Chartered Accountants, dated July 14, 1967.

Consolidated Statement of Earned Surplus

YEAR ENDED MARCH 19, 1967
(WITH COMPARATIVE FIGURES FOR THE PERIOD
DECEMBER 27, 1964 TO MARCH 20, 1966)

	13 periods ended March 19, 1967	*16 periods ended March 20, 1966*
Amount at beginning of period	$ 2,798,245	2,724,665
Add:		
Net income	745,986	58,175
Adjustment of prior years' depreciation	—	614,000
Adjustment of prior years' income taxes	35,408	—
	3,579,639	3,396,840
Deduct:		
Dividends:		
Preferred	16,455	20,569
Common	96,000	136,000
	112,455	156,569
Write-down of investments	—	442,026
Transfer to deferred income taxes (note 6)	45,500	—
Transfer to reserve for contingencies	100,000	—
	257,955	598,595
Amount at end of period	$ 3,321,684	2,798,245

Statement of Reserve for Contingencies

YEAR ENDED MARCH 19, 1967
(WITH COMPARATIVE FIGURES FOR THE PERIOD
DECEMBER 27, 1964 TO MARCH 20, 1966)

Amount at beginning of period	$ 450,000	450,000
Add transfer from earned surplus	100,000	—
Amount at end of period	$ 550,000	450,000

See accompanying notes to consolidated financial statement.

Subject to the accompanying report of Peat, Marwick, Mitchell & Co., Chartered Accountants, dated July 14, 1967.

Notes to Consolidated Financial Statement

March 19, 1967

1. The consolidated financial statement includes the accounts of the company, all but one of its domestic subsidiaries and one foreign subsidiary. The accounts of one minor subsidiary have been included on the basis of a financial statement dated December 31, 1966.

   The accounts of the domestic subsidiary and the two foreign subsidiaries not consolidated have been excluded because of the different nature of their businesses.

2. Because of a revision in the method of costing, finished goods included in the cotton divisions' inventories are valued by $139,605 greater than they would have been had they been calculated on the method in use at March 20, 1966 with a resultant increase in net income, after allowing for income taxes, of $107,495.

3. The investment in two of the subsidiaries not consolidated is stated at the net underlying asset value of $14,292, a net increase of $3,250 during the year. The investment in the remaining subsidiary not consolidated is at a nominal value of $1, unchanged during the year.

   The investment in shares of the associated company, acquired at a cost of $28,392 is stated at the net underlying asset value of $243,905, an increase of $72,508 since March 20, 1966.

   The shares of one company included in "other investment in shares" are stated at $832,098 which is cost plus their portion of capitalized surplus. The remaining shares are stated at cost as to $1,050,627 and at nominal value of $1. Based on the latest available financial statements the amount of $1,050,627 is less than the company's equity in those investments.

4. Land is stated at market value as appraised by Mr. F. Kent Hamilton under date of April 5, 1928 with subsequent additions at cost. Buildings, machinery and equipment are stated at depreciated replacement cost as appraised by Lockwood, Green & Co., Inc., under date of April 5, 1928 with subsequent additions at cost.

   The depreciation rate used by a subsidiary company was increased during the year in respect of buildings with a resultant increase in depreciation charged of $100,000.

5. Funded debt consists of:

	1967	1966
6% First Mortgage sinking fund bonds due April 1, 1972 of which $125,000 are required to be retired by way of sinking fund by April 1 in each year to 1971	$ 1,125,000	1,250,000
6¼% Sinking Fund debentures Series A due August 1, 1983 of which $25,000 are required to be retired by way of sinking fund by August 1 in each year to 1982	925,000	950,000
	$ 2,050,000	2,200,000

   The bonds and debentures may be retired for other than sinking fund purposes, at the company's option, at premiums varying according to date of redemption.

6. An adjustment through earned surplus was made to deferred income taxes to reflect an increase therein of $45,500 because of claiming for income tax purposes in the previous period depreciation in an amount greater than originally contemplated.

   Income taxes currently payable have been reduced because of substantial amounts of non-taxable items in income and from losses available to offset the income of certain subsidiaries otherwise taxable.

7. The deferred credit from sale of fixed assets arose in prior years on sale and lease-back transactions and is being credited to income over the initial terms of the leases.

   The aggregate rentals paid in the current year for the use of land, buildings and equipment under the sale and lease-back arrangements amounted to $752,585. The minimum annual rentals to be paid in the fiscal years ending in March 1968 and 1969 amount to $387,503 and $349,659 respectively reducing thereafter in varying amounts to $73,000 payable in 1989.

8. The preferred shares are redeemable at $101 plus accrued and unpaid dividends. The company is required to provide $15,000 (or less in certain circumstances) annually for the redemption of preferred shares which provision was fulfilled in 1964 for the current year.

Series A warrants, issued with the 6¼% Sinking fund debentures, Series A, entitle the holders thereof to purchase an aggregate of 8,000 common shares up to and including July 2, 1972 at prices varying from $25 to $35 per share depending on date of purchase. 8,000 common shares have been reserved for issuance on the exercise of the warrants.

Subsequent to March 19, 1967 the authorized capital was reduced by the cancellation of 400 preferred shares heretofore issued and subsequently purchased for cancellation by the company and the restriction on the amount of $40,000 of earned surplus (note 9) was removed.

At the same time the authorized capital was increased to 50,000 5% cumulative redeemable sinking fund preferred shares of $100 par value each by the creation of an additional 46,709 of the said preferred shares. The 50,000 preferred shares were reclassified as preferred shares of the par value of $100 each, issuable in series, of which the issued 3,291 shares were designated as 5% cumulative redeemable sinking fund preferred shares, Series "A" and of which 10,000 of the unissued preferred shares were designated as 6% cumulative redeemable convertible preferred shares, Series "B".

The 10,000 preferred shares, Series "B" were subsequently issued for cash, $1,000,000, of which $400,000 was applied to redeem $400,000 of notes not due within one year.

9. Under the provisions of Section 61 of the Canada Corporations Act $40,000 of earned surplus is restricted as representing the amount of preferred shares redeemed (note 8). The Trust Deeds securing the funded debt contain restrictions on the payment of dividends if certain conditions are not met.

10. Assets and liabilities originating in foreign currencies have been translated on the following bases: Current items at the rate of exchange in effect at March 19, 1967; other items at the rates in effect at the dates the transactions were completed.

11. Contingent liabilities:

As guarantor of bank loans of a supplier, $2,350,000 U.S. (secured by raw cotton warehouse receipts in the Southern United States) and others $110,900. For notes receivable sold with recourse $518,294.

Commitment for the purchase of shares $118,476.

Consolidated Statement of Source and Application of Funds

Year Ended March 19, 1967
(With Comparative Figures for the Period
December 27, 1964 to March 20, 1966)

	13 periods ended March 19, 1967	16 periods ended March 20, 1966
Funds provided:		
From operations:		
Net income	$ 745,986	58,175
Non-cash items entering into net income:		
Add:		
Depreciation	591,059	518,355
Loss on sale of fixed assets	96,659	11,956
Loss on sale of shares of a former subsidiary	1,685	—
	1,435,389	588,486
Deduct:		
Transfer of deferred gain on sale of fixed assets	282,228	532,682
Increase in equity in subsidiary and other investments	78,367	72,344
Decrease in deferred taxes	—	51,000
Gain on sale of investment	73,320	—
	433,915	656,026
Funds provided from operations . .	1,001,474	(67,540)
Income tax adjustment credited to earned surplus	35,408	—
Proceeds on sale of other investment . . .	154,531	—
Decrease in conditional sales contracts receivable	89,196	108,565
Increase in conditional sales contracts payable .	59,546	314,726
Proceeds on sale of fixed assets	42,879	107,573
Decrease in mortgages and accounts receivable .	8,114	9,207
Decrease in excess of cost of investment of consolidated subsidiaries over the equity therein	2,915	2,016
Increase in notes not due within a year . . .	—	294,220
	1,394,063	768,767
Used as follows:		
Purchase of fixed assets	380,480	1,504,948
Increase in investments and advances . . .	80,980	(287,184)
Special refundable tax paid	10,525	—
Increase in deferred charges, net	9,736	63,165
Reduction of funded debt	150,000	150,000
Reduction of deferred finance charges . . .	12,266	17,147
Reduction in notes payable	38,557	—
Dividends paid	112,455	156,569
	794,999	1,604,645
Increase (decrease) in working capital . .	599,064	(835,878)
Working capital at beginning of period . . .	1,846,321	2,682,199
Working capital at end of period . . .	$ 2,445,385	1,846,321